

## CHAPTER VI

# LESSONS AND OPTIONS

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Despite the differences among the industries considered in this report, they share a number of important parallels in their experiences with trade protection. First, competition from imports was a significant and growing factor well before trade restraints were imposed. Second, the effectiveness of the restraints in reducing imports was limited. Finally, and most significantly, protection has not substantially improved the ability of domestic firms to compete with foreign producers. After reviewing these issues, this chapter discusses a number of options for industries injured by competition from imports.

## LESSONS FROM PROTECTION

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In the post-World War II period, the concept of offering short-term protection for industries harmed by import competition was an outgrowth of the process of liberalizing trade. If a negotiated tariff reduction injured a particular industry, the "escape clause" provided the prospect of temporary relief by reinstating the tariff. In 1974, however, the Congress modified the "escape clause" to provide trade restraints to a wider set of industries. This change shifted the focus of trade protection from dealing with the problems resulting from a reduction in trade barriers to resolving the more generic problems of increased import competition for American industries.

Trade protection is now mainly intended to increase an industry's international competitiveness, but it accomplishes this goal indirectly. In competitive markets, protection will generally increase prices, profits, output, and employment. In turn, higher profits supposedly provide firms with the resources to make the investments necessary for them to compete more effectively. In the cases considered in this report, however, lack of investment was not the sole--or even the primary--source of the industries' competitive difficulties.

### Consequences of Using Quotas

In the four case studies, the primary method for protecting industries was to impose quotas against the major foreign suppliers. The sole exception was the use of the trigger price mechanism in the steel industry. Quotas were generally aimed at imports from the principal foreign sources of supply, but their impact was limited by a number of factors--increased imports from unrestrained producers, shifts by restrained producers to unrestrained or higher-valued products, and the effects of recessions. Although tariffs and tariff-rate quotas have been used in a number of instances, they were usually employed to protect industries substantially smaller than the ones considered here.<sup>1/</sup>

Source Switching. One consequence of limiting imports is source switching, which can often diminish the effectiveness of employing quotas. Quotas are rarely placed on all exporters of a particular product. As a result, limiting the supply from some countries increases demand for producers in unconstrained countries, as well as firms in the United States. The greater the significance of unconstrained foreign suppliers, the smaller will be the impact of the quotas.

The footwear industry provides the most notable example of source switching. Voluntary restraint agreements were negotiated with only Taiwan and Korea, which together accounted for 54 percent of total imports at the time the restraints were put into place. Although the restraints forced a cutback in imports from these countries, imports from other sources made up the shortfall. Source switching has also been a substantial and continuing factor in the textile and apparel industry. For example, the quotas on cotton textiles from Japan in the 1950s were an important impetus to the development of these industries in Hong Kong, Korea, and Taiwan.

In contrast, when restraints were placed on Japanese car producers, other foreign automobile manufacturers were not able to fill the void. Consequently, the voluntary restraint agreements significantly curtailed imports of small relatively inexpensive vehicles and ultimately provided the domestic industry with substantial relief.

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1. See Gary Hufbauer and Gary Rosen, *Trade Policy for Troubled Industries*, Policy Analyses in International Economics 15 (Washington, D.C.: Institute for International Economics, March 1986), p. 46.

Product Switching. The effectiveness of quotas is also undermined when firms in constrained countries shift production to substitute products that are not covered by the restraints. This effect is vividly demonstrated in the textile and apparel industries. The Long-Term Agreement's restraints on cotton textile and apparel encouraged foreign manufacturers to increase their production of fabrics and garments of synthetic fibers, which were not covered by the agreement. Since products of cotton and synthetic fibers compete with one another, this substitution limited the impact of the restraints. The Multifiber Arrangement was an attempt to close this gap. Nevertheless, imports of products made of ramie, silk, and linen, which are not covered by the MFA, have increased dramatically in the past few years. These products were added to the MFA when it was renewed in the summer of 1986.

In some cases, restraints have allowed producers to increase production of those products that are different but made of the same materials. For example, most agreements to limit textile and apparel imports do not cover all products. As a result, foreign producers have shifted production to different garments of the same material. Similarly, in the footwear industry, by reducing the amount of ornamental leather used on certain athletic shoes, Korean manufacturers were able to circumvent the quotas to some extent.

The effectiveness of the quotas to domestic producers can also be reduced when foreign producers shift their product mix toward higher-valued goods, as took place in the footwear, steel, and automobile industries. Since higher-valued products are frequently the most profitable for domestic manufacturers, this shift in the product mix limits the extent that quotas increase the profitability of domestic firms.

Recessions Limit Effectiveness. During recessions incomes decline, which affects demand for both domestic and foreign-produced products. This reduction brings the demand for imports more in line with the quotas. If the decline in demand is large enough, as was apparently the case with automobiles in 1981 and 1982, foreign producers will not want to export more than they are permitted; that is, the quotas will not restrain imports.

### The Effects of Protection on Domestic Producers

Although the factors described above limited the effectiveness of protection, restraints provided some relief in all four of the cases. Consequently, employment, prices, and profits in the aided industries were higher than

they would have been without protection. Nevertheless, even when the restraints were most effective, employment and output were not substantially increased. In the domestic automobile industry, they led at most to 5 percent more production, with a somewhat smaller increase in employment. Protection had even less effect in the steel, footwear and, before 1982, the textile and apparel industries.

Prices and Profits. An important goal of protection is to provide an industry with the resources to modernize and thereby increase its international competitiveness. Thus, proponents of protection believe that one important source of an industry's difficulties is that it cannot generate sufficient profits to undertake necessary modernization. By reducing the supply of imports, protection increases demand for domestically produced substitutes. Consequently, along with output, protection generally increases prices and profits of domestic manufacturers. These higher prices apply to all products the industry sells and not just the increases resulting from protection. Therefore, restraints on imports have a significantly greater effect on the domestic industry's profits than on their output or employment. For example, if an industry's pretax profits were 5 percent of sales before protection, a 1 percent increase in prices, with output remaining unchanged, would raise profits by 20 percent.

In the automobile industry, prices may have been as much as 4 percent higher than they would have been if the quotas were not imposed. In the footwear and steel industries, prices were probably less than 3 percent higher. Nevertheless, only in the footwear and automobile industries did protection significantly increase profits above what they had been before restraints were imposed. In the case of steel, protection failed to increase industry profits above what they had been, although it probably slowed the rate at which they declined. Moreover, by bolstering profits the restraints may have had a role in perpetuating the relatively high wage structures that exist in the steel and automobile industries.

Competitiveness. In the industries considered, import competition was not the result of a sudden shift in conditions, but rather it had been a long-term problem before trade protection was granted. Moreover, the failure of these industries to adjust does not appear to have been the result of a lack of resources. The difficulties of the apparel and footwear industries (and indirectly those of textiles) stem from the relatively high prevailing wage rates in the United States, which protection does not address. Nor can protection be expected to lead to the development of cost-reducing technologies. In fact, protection does not significantly increase the incentives of firms to invest in such technologies.

Even when a firm has the resources to invest in a cost-reducing technology, it does not make the investment unless it expects to earn an adequate rate of return. For example, rather than investing in a new steel mill, U.S. Steel (now USX) elected to acquire Marathon Oil in 1982.<sup>2/</sup> Conversely, despite rapidly deteriorating profits between 1979 and 1981, the domestic automobile manufacturers were still able to increase their investments in plant and equipment.

More fundamentally, protection has not significantly increased the international competitiveness of the affected industries. In footwear and steel, imports increased when protection lapsed, and a majority of the International Trade Commission subsequently concluded that the industries had again been injured. Similarly, imports in the textile and apparel industries increased dramatically during the 1980s, suggesting that they have not substantially improved their international competitive standing. This increase in imports of textiles and apparel was sufficient to prompt the Congress to pass legislation, which was vetoed by President Reagan, to tighten the quotas on many foreign producers. In the automobile industry, despite the increasing popularity of larger cars, quotas were still limiting Japanese imports in 1985. Moreover, a number of United States automobile manufacturers have announced that they will buy more cars produced by Japanese and other foreign automakers to sell under their nameplates.

## POLICY OPTIONS

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Trade restraints have failed to achieve their primary objective of increasing the international competitiveness of the relevant industries. This failure may have resulted from the restraints not providing the industries with sufficient protection. Alternatively, protection may not have enabled firms to overcome the sources of their competitive disadvantage. In either event, the Congress should consider a number of options for industries adversely affected by international competition. These options include:

- o Use tariffs instead of quotas to restrict imports;
- o Increase the international competitiveness of domestic industries through a coordinated effort by labor, management, and government;

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2. U.S. Steel paid \$3.75 billion for half of the outstanding Marathon stock and issued bonds for the remainder. See "Two Holders of Marathon Move to Block U.S. Steel Merger Citing Unfair Price," *Wall Street Journal*, January 14, 1982, p. 12.

- o Focus on aiding workers who have been displaced by foreign competition and cease trying to increase the international competitiveness of domestic industries; and
- o End the distinction between firms and workers that have been adversely affected by trade and those that have been adversely affected by other factors.

In addition to these options, the Congress should note that macroeconomic policies, by affecting the value of the dollar, have a substantial effect on firms competing in international markets. Since the early 1970s, the dollar has fluctuated widely in international currency markets. This volatility not only increases the risks associated with doing business in markets with a high share of imports, but makes it more difficult for firms to anticipate developments in the marketplace. While differences in the growth and inflation rates of nations assure some fluctuation in the value of their currencies, the gyrations in U.S. monetary and fiscal policy through much of the 1970s and 1980s has increased this volatility. In the 1970s, the United States coupled a relatively restrictive fiscal policy with a relaxed monetary policy, which led to declining real interest rates and the depreciation of the currency. For much of the 1980s, the United States reversed directions by running large budget deficits while initially restricting the growth of money. By driving real interest rates up, this combination of policies increased the value of the dollar. More stable macroeconomic policies would have resulted in less volatile exchange rates and would have probably eased the difficulties of firms in adjusting to changes in international competitive conditions.

#### Use Tariffs Instead of Quotas to Restrict Imports

One possible policy would be to use tariffs--as opposed to quotas--to restrict imports. It should be noted, however, that quotas have a number of desirable features. For one thing, they can be targeted at those foreign producers that are most responsible for the increased imports. Quotas also minimize the financial burden on restrained suppliers because they may increase the profits of foreign producers, and thus they reduce the likelihood of retaliation by foreign governments. Finally, since most quotas are "voluntarily" agreed to by the restrained suppliers, they do not require the United States to violate its obligations under the General Agreement on Tariffs and Trade.

Despite such advantages, quotas pose a number of particular problems as a means of protecting an industry. They provide incentives both for unrestrained foreign suppliers to expand their exports to the United States and for producers in restrained countries to increase their shipments of

higher quality products. Also, when demand declines, as with a recession, the level of protection provided by a quota is often substantially reduced. Further, by preventing foreign firms from supplying more than a specified quantity, quotas may enable a domestic, oligopolistic industry to raise its prices above costs and, in certain cases, actually reduce its output.

In contrast, tariffs provide a more predictable level of relief. They can be readily placed on products of all foreign producers, which precludes sales of certain ones from expanding as is apt to occur under quotas. Moreover, in the case of a tariff, the amount that an importer pays is proportional to the value of its product, and the incentive for foreign producers to change their product mix is significantly reduced. In addition, a tariff's effectiveness is not diminished by recessions. Finally, while a tariff increases the costs to foreign firms of supplying the domestic market, the quantity of imports is not limited. Thus, domestic producers in an oligopolistic industry are less likely to be able to exercise market power if imports are restrained by a tariff.

All restrictions on imports inhibit the movement of resources to their most efficient uses and thereby reduce welfare in a fully employed economy. Tariffs have, however, a smaller adverse impact than quotas, given an equivalent curb on the volume of imports, since the U.S. government captures the revenues resulting from higher import prices. Under a quota, foreign producers capture these revenues. Yet, advocates of protection claim that higher profits stimulate investment and thereby reduce costs. By this logic, however, using quotas to restrict imports can make foreign producers more competitive. On the other hand, a quota would have a similar effect to a tariff if the U.S. government were to auction rights to export products to this country. In both cases, the United States captures the increase in the price of imports that results from the trade restraint.

Unlike a quota, a tariff's effectiveness will be influenced by changes in the value of the dollar. For example, if a 20 percent tariff was to be placed on a product and the value of the dollar then increased by 20 percent, the costs to foreign firms of supplying a product to the United States would be about the same as they were before the tariff was put into place. Thus, in order to avoid a situation in which fluctuations in exchange rates weakens the effectiveness of the restraint, tariffs might be adjusted periodically in response to changes in the value of the dollar.

### Increase the International Competitiveness of Domestic Industries

In the case of the industries discussed in this report, it is doubtful that a lack of investment was responsible for the difficulties they have had, and

therefore more effective protection would not have improved their competitiveness. Instead of simply imposing restraints, adopting a more comprehensive strategy might be able to increase the long-term international competitiveness of injured domestic industries.

One possible way to achieve this goal would be to form a panel of representatives from government, labor, management, consumers, and affected communities to develop a revitalization strategy. It could, for example, be convened by the United States Trade Representative during an ITC proceeding to determine whether or not an industry should be granted trade protection because it has been injured by imports. A similar panel was proposed in H.R. 4800 in the 99th Congress.<sup>3/</sup> Under this bill, however, industry and labor membership was limited, and the panel would not have been able to develop a detailed blueprint for the industry's revitalization.

An overseeing body with a broader mandate could be convened after the ITC determined that an industry was injured by imports. In addition to containing representatives of labor and management from a large proportion of the firms in the industry, this panel would include industry experts appointed by the Congress, the Trade Representative, or the ITC. It could identify market segments where domestic firms can most effectively compete, as well as develop strategies to take full advantage of these opportunities. For example, the panel could coordinate investment decisions and the phasing out of inefficient facilities. A revitalization plan could also include reductions in wage rates and liberalization of work rules. Furthermore, the government could offer grants or loan guarantees to firms to assist in this revitalization; it could also decide to provide the injured industry with protection or to give direct subsidies.<sup>4/</sup>

Any argument for such a policy must rest on the premise that the market does not provide firms with the proper incentives to close down inefficient facilities and to make new investments. For example, it might be argued that firms are reluctant to construct new plants of efficient size for fear that the additional output would produce a glut on the market. Further, it might be argued that firms are reluctant to close inefficient facilities for fear that reducing their product line or the number of product

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3. H.R. 4800 empowered the Trade Representative to appoint the panel, if the petitioner requested it. However, neither the failure of a petitioner to request such a plan nor the failure of a committee to devise such a plan is to influence the decision in the proceeding.

4. See, for example, Daniel Luria, "New Labor-Management Models from Detroit?" *Harvard Business Review* (September-October 1986), pp. 22-32.

markets they serve will place them at a competitive disadvantage. By coordinating plant closings and new investments, a panel could reduce such concerns and thereby encourage investment. Moreover, if workers perceive that a coordinated program lessens the risk of job loss, they may be more willing to accept wage cuts.

Despite the development of a revitalization plan, firms may be unable to secure adequate financing if capital markets do not work efficiently. Private sources of funds may focus on the industry's past performance and immediate prospects, while failing to recognize its long-term potential. In that case, the government may have to serve as a necessary source of additional capital either directly or indirectly through trade protection. Moreover, the potential of such government aid might be used as an inducement for the various firms and their workers to agree on a program.

Using government aid as part of a process to rescue an injured party is not unprecedented. Most notably, the government's guarantee of \$1.5 billion of loans to Chrysler was part of a package that included concessions by the company's suppliers and workers as well as federal monitoring of investments.<sup>5/</sup> In at least one fundamental respect, the Chrysler bailout differed from proposals to aid industries injured by import competition: the Chrysler revitalization plan did not involve joint actions by competitors.

An industry-wide revitalization strategy, however, poses a number of distinct problems. Because firms in a given industry produce different products, have different cost structures, and have developed different competitive strategies, forging an agreement among diverse constituents will be, at best, an arduous and time-consuming task. In fact, it may prove to be an impossible one.

In any event, using a comprehensive industry-wide plan to revitalize these industries may not be effective. Firms under competitive pressure already have incentives to discover the means to counter increasing international competition. A comprehensive industry-wide strategy reduces the incentives of firms to compete and can thereby be counterproductive. Moreover, such a plan requires predictions about future trends in the

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5. The government also aided Lockheed and New York City during their times of financial difficulty. For an analysis of these bailouts, see Comptroller General, *Guidelines for Rescuing Large Failing Firms and Municipalities* (Washington, D.C.: General Accounting Office, March 29, 1984, GAO/GGD-84-34).

market, and such long-term prognostications could be wrong. Finally, it is a waste of society's resources to compel firms to invest in plant and equipment that capital markets do not expect will produce an adequate return.

If a broad-based revitalization strategy is adopted, it is still questionable whether trade protection should be part of it. Trade protection supposedly contributes to the revitalization of an industry by providing firms with the resources to modernize. If capital markets do not supply the necessary funds, however, it would be more efficient for the government to provide the funds directly through appropriations. This approach would be more likely to result in the resources being used to modernize the industry and not for other investments or higher wages. In addition, direct government funding would avoid the costs to the economy of protection, although they would appear as the consequence of higher budget deficits.

Given that firms can achieve economies by acting jointly to reduce the capacity of inefficient facilities and to build new plants, mergers may provide a more reasonable means to achieve these ends than an industry-wide panel. While existing antitrust laws take into account the impact of foreign suppliers, it is highly unlikely that a merger between all domestic competitors would be permitted under U.S. antitrust law. A combination of a few firms, however, may realize any advantages of coordinating the retirement of existing facilities and the building of new ones.

#### Focus on Workers Who Have Been Displaced by Import Competition

One can reasonably argue that government actions have little likelihood of improving an industry's competitive position. Consequently, another option would be to focus the role of government on helping employees in the affected industries find jobs in other sectors of the economy. This step would be achieved primarily by providing displaced workers with help in relocating and retraining.<sup>6/</sup> Eligibility for such relief would be determined by the ITC in something like an "escape clause" proceeding. It has also been

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6. For a discussion of these policy alternatives, including one of the author's own, see Gary Hufbauer and Howard Rosen, *Trade Policy for Troubled Industries*, Policy Analyses in International Economics 15 (Washington, D.C.: Institute for International Economics, March 1986), pp. 67-94. Also see Robert Z. Lawrence and Robert E. Litan, "Living with the Trade Deficit: Adjustment Strategies to Preserve Free Trade," *The Brookings Review* (Fall 1985), pp. 3-13.

proposed that workers displaced by imports be given some compensation, or earnings insurance, to make up part of any difference in wages between their old jobs and their new jobs.<sup>7</sup>

The principle of providing some form of compensation for workers who have been adversely affected by import competition has been part of U.S. trade laws since the Trade Adjustment Assistance (TAA) was enacted in 1962. That program, however, largely provided workers with extended unemployment compensation and did little to improve job mobility for displaced workers.<sup>8</sup> At its peak, in 1980 and 1981, expenditures for the program averaged \$1.5 billion a year (see Table 11). Only about 1 percent of TAA expenditures were, however, spent on activities other than providing extended unemployment benefits. Since that time, Trade Adjustment Assistance has been substantially reduced; in fiscal year 1986, it was allocated only \$25 million.

Aside from the high cost of the program, the Trade Adjustment Assistance declined for two other reasons. First, the program did not work very well.<sup>9</sup> It did not provide workers with much incentive to train for different occupations, and a large proportion of workers who were covered by the program ultimately returned to their previous employment. Only 1.4 percent of the workers who received trade adjustment assistance completed a retraining program, and of those only 36 percent took a job for which they had trained.<sup>10</sup> The second factor that led to the reduction in the size of the program was the belief that it was unfair to distinguish between workers who were displaced because of foreign competition and those who were displaced for other reasons. This problem will be considered in the following section.

Advocates of aiding workers who have been displaced by import competition draw on the lessons of previous examples of trade adjustment assistance. First, they maintain, the proposed programs should encourage job

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7. See Robert Lawrence and Robert Litan, "Living with the Trade Deficit," p. 12.
  8. For a discussion of the history of Trade Adjustment Assistance, see Office of Technology Assessment, *Technology and Structural Unemployment: Reemploying Displaced Adults*, OTA-ITE-250 (Washington, D.C.: U.S. Government Printing Office, February 1986), pp. 196-198.
  9. See C. Michael Aho and Thomas O. Bayard, "Costs and Benefits of Trade Adjustment Assistance," in Robert Baldwin and Anne Kruger, eds., *The Structure and Evolution of Recent U.S. Trade Policy* (Chicago: University of Chicago Press, 1984), pp. 153-192.
  10. See Robert Lawrence and Robert Litan, "Living with the Trade Deficit," p. 10.

TABLE 11. TRADE ADJUSTMENT ASSISTANCE

Fiscal Year	Workers Receiving TRAs (In thousands)	Outlays for TRAs (In millions of dollars)	Number of Workers			Outlays (In millions of dollars)		
			Training	Job Search	Relocation	Training	Job Search	Relocation
1975 <sup>a/</sup>	47	71	463	158	44	n.a.	n.a.	n.a.
1976	62	79	823	23	26	2.7 <sup>b/</sup>	n.a.	n.a.
1977	111	148	4,213	277	191	3.8 <sup>c/</sup>	n.a.	0.2
1978	156	257	8,337	1,072	631	12.0	0.2	0.6
1979	132	256	4,458	1,181	855	12.0	0.3	1.2
1980	532	1,622	9,475	931	629	5.2	0.1	0.7
1981	281	1,444	20,386	1,491	2,011	1.9	0.3	2.0
1982	30	103	5,844	697	662	18.4	1.0 <sup>d/</sup>	n.a.
1983	30	37	11,299	696	3,269	33.0	3.0 <sup>d/</sup>	n.a.
1984	16	35	6,821	799	2,220	16.5	0.2	2.3
1985	21 <sup>e/</sup>	43 <sup>e/</sup>	3,712 <sup>f/</sup>	396 <sup>f/</sup>	793 <sup>f/</sup>	8.5 <sup>f/</sup>	0.1 <sup>f/</sup>	1.0 <sup>f/</sup>

SOURCE: House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, 99th Congress, 1st Session, Committee Print WMCP-99-2 (March 3, 1986), pp. 280-295.

NOTES: Trade Readjustment Allowances (TRAs) provide income support during unemployment or training. Job search expenditures are for job searches outside the worker's commuting area.

n.a. = not available.

- a. Data available for fourth quarter only; data on outlays for training, job search, and relocation not available.
- b. Combined amount for training, job search, and relocation.
- c. Combined amount for training and job search.
- d. Combined amount for job search and relocation.
- e. Estimated.
- f. Data for three quarters.

mobility by placing more emphasis on retraining and relocation, and less emphasis on cash grants. To give workers a greater incentive for participating in job retraining, some proponents have advocated providing cash grants only to those workers who enroll in such programs. Other advocates maintain that it would be more productive to require workers to pay for a portion of their retraining through loans that would be repaid after the individual was reemployed.<sup>11/</sup>

A common aspect of these proposals is that they would be self-financing. Options include a tariff (or auctioned quota rights) on the affected imports, a general tariff on all imports, a tax on both domestic and imported products in the affected industry, or some combination of the above. Like Trade Adjustment Assistance, however, it could be funded with general fund revenues. H.R. 4800 required that revenues from tariffs or quota auctions be deposited into a Adjustment Assistance Trust Fund and be used to finance trade adjustment assistance.

The most efficient way to fund such a program to aid displaced workers would be from a broad-based revenue source. After all, the benefits of free trade are distributed throughout the economy and not limited to the consumers of imported products. Moreover, to the extent that the cost disadvantage of an industry is a result of its wages being high relative to other domestic workers, more broad-based funding sources would be less likely to subsidize high wages than tariffs on specific products. Finally, the revenues in such a fund would inevitably either be greater than or less than the needs of the beneficiaries.

Trade restraints may in and of themselves be an effective means of easing the costs that arise when workers are dislocated. By preventing a rapid and sudden increase in the number of workers who are laid off within an industry, protection might limit unemployment in these labor markets and shorten the time it takes for displaced workers to find new jobs. (In certain communities, the affected industry may play a central role in the local economy and the workers in that industry may be reluctant to move.) Reducing these adjustment costs would represent a savings to the economy that might offset the loss in efficiency from the restraints. Moreover, allowing the industry to contract more gradually would permit the municipal governments and the local economy to adjust to the region's changed economic circumstances. During the period of protection, the rate at which the industry contracts and the condition of the local labor market could be

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11. See Robert Lawrence and Robert Litan, "Living with the Trade Deficit," p. 10.

monitored by the Department of Labor and the level of protection adjusted accordingly.

#### End Special Treatment for Industries Injured by Imports

A final option is to end the distinction between industries and firms that contract because of foreign competition and those that contract for other reasons. An economy improves the welfare of the population by fostering competition among producers of goods and services and by providing incentives for resources to be employed in their most productive uses. Trade is an important part of this process. It enables an economy to specialize in those products that it can produce relatively efficiently. Thus, if foreign producers can manufacture goods more cheaply than domestic producers, the welfare of American society is improved by allowing the industry to contract and employing the idled resources in other sectors of the economy. Similarly, domestic welfare is enhanced if producers in one region of the nation introduce a new product even if it results in the contraction of firms producing competitive products in another region.

Demand for an industry's products are affected by numerous factors, increased imports being only one of them. Yet, under current trade laws, an industry can receive protection only when imports are the most important source of the injury; an industry in which imports are the second most important source of injury is ineligible to receive such protection.

In a dynamic competitive economy, resources will inevitably be idled and some workers and some regions will be more adversely affected than others. The injury may come from increased imports, changes in tastes, or entry of new firms in other regions of the country. Mismatches in the location of jobs and the skill levels of workers are not limited to industries that have been adversely affected by trade. Moreover, evidence suggests that the occupational and demographic characteristics of employees who were displaced by import competition--that is, those who received trade adjustment assistance--were similar to those who received unemployment insurance. <sup>12/</sup>

Consequently, some analysts consider it inequitable to provide aid to workers and industries that have been injured by trade and not by other

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12. See C. Michael Aho and Thomas O. Bayard, "Costs and Benefits of Trade Adjustment Assistance."

factors. Solutions to these problems should be broadly based. Under Title III of the Job Training Partnership Act, the Congress established such a program. If the Congress is concerned with the problems of displaced workers, funding for that program should be increased. Federal expenditures for Title III for the program year ending June 1986 were only 12 percent of expenditures in the peak year of the Trade Adjustment Assistance Program (see Table 12).

TABLE 12. JOB TRAINING PARTNERSHIP ACT TITLE III

Category	October 1983- June 1984	July 1984- June 1985	July 1985- June 1986 <sup>a/</sup>
Expenditures <sup>b/</sup> (In millions of dollars)	74.7	164.2	197.8
Average Enrollment	28,800	48,700	72,500
Total Participants	96,100	177,700	285,600

SOURCE: Department of Labor.

NOTE: Seventy-five percent of funds are distributed by formula and must be matched 100 percent by the states. Exceptions are made for states with higher unemployment rates, although states may charge other items like unemployment benefits to the match.

- a. Preliminary data.
- b. Expenditures are on an accrual basis; that is, when goods and services are received rather than when payment is made.

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